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April 11, 2012

**VIA ELECTRONIC FILING**

Jocelyn G. Boyd, Esquire  
Chief Clerk & Administrator  
**Public Service Commission of South Carolina**  
101 Executive Center Drive, Suite 100  
Columbia, South Carolina 29210

Re: Annual Review of Base Rates for Fuel Costs of South Carolina Electric & Gas Company  
**Docket No. 2012-2-E**

Dear Ms. Boyd:

Attached please find the Joint Proposed Order of the South Carolina Office of Regulatory Staff, South Carolina Electric & Gas Company and South Carolina Energy Users Committee.

Do not hesitate to call should you have any questions.

Respectfully yours,

Jeffrey M. Nelson

cc: Damon E. Xenopoulos, Esquire  
K. Chad Burgess, Esquire  
Kevin A. Hall, Esquire  
Mitchell M. Willoughby, Esquire  
Scott Elliott, Esquire

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2012-2-E**

IN RE:	)	
	)	
Annual Review of Base Rates for	)	<b>JOINT PROPOSED ORDER</b>
Fuel Costs of South Carolina Electric	)	<b>APPROVING FUEL COSTS</b>
& Gas Company	)	<b>AND ADOPTING</b>
_____	)	<b>SETTLEMENT AGREEMENT</b>

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the annual review of the fuel purchasing practices and policies of South Carolina Electric & Gas Company (“SCE&G” or “Company”) and for a determination as to whether any adjustment in the fuel cost recovery factors is necessary and reasonable. The procedure followed by the Commission in this proceeding is set forth in S.C. Code Ann. § 58-27-865 (Supp. 2011). Specifically, S.C. Code Ann. § 58-27-865(B) states in pertinent part that, “[u]pon conducting public hearings in accordance with law, the [C]ommission shall direct each company to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the [C]ommission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period.” The period under review in this Docket is January 1, 2011, through December 31, 2011.

By letter dated October 20, 2011, the Commission’s Clerk’s Office instructed the Company to publish a Notice of Hearing and Prefile Testimony Deadlines (“Notice”) in newspapers of general circulation in the area affected by the Commission’s annual review of the Company’s fuel purchasing practices and policies by January 6, 2012. The Notice also

instructed the Company to furnish the Notice to its customers by U.S. Mail, or by electronic mail to customers who have agreed to receive notice by electronic mail, by January 6, 2012. The Notice indicated the nature of the proceeding and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file appropriate pleadings. On December 29, 2011, the Company filed with the Commission affidavits demonstrating that the Notice was duly published in accordance with the Clerk's Office's instructions and certified that a copy of the Notice was furnished to each affected customer.

Timely petitions to intervene were received from CMC Steel South Carolina ("CMC Steel") and the South Carolina Energy Users Committee ("SCEUC"), which were not opposed. The South Carolina Office of Regulatory Staff ("ORS") is automatically a party pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2011).

The Commission convened a hearing on this matter on March 22, 2012, with the Honorable John E. Howard, Chairman, presiding. SCE&G was represented by K. Chad Burgess, Esquire; Matthew W. Gissendanner, Esquire; and Mitchell Willoughby, Esquire. SCEUC was represented by Scott Elliott, Esquire. CMC Steel and its counsel of record did not appear at the hearing. Jeffrey M. Nelson, Esquire represented ORS. In this Order, ORS, SCEUC, CMC Steel and SCE&G are collectively referred to as the "Parties" or sometimes individually as a "Party."

At the outset of the hearing, counsel for ORS presented the Settlement Agreement that had been filed with the Commission on March 15, 2012. The signatories to the Settlement Agreement were SCE&G, ORS, and SCEUC (collectively, the "Settling Parties"). The Settlement Agreement was admitted into the record as Hearing Exhibit 1 and is attached hereto and incorporated herein as Order Exhibit No. 1. In the Settlement Agreement, the Settling Parties represented to the Commission that they had discussed the issues presented in this case

and determined that each Party's interests and the public interest would be best served by settling all issues pending in this case in accordance with the terms and conditions contained in the Settlement Agreement.

S.C. Code Ann. § 58-3-140(A) (Supp. 2011) vests the Commission with the "power and jurisdiction to supervise and regulate the rates and service of every public utility in this State...." In carrying out these duties in relation to the Settlement Agreement, the Commission's published "Settlement Policies and Procedures" (Revised 6/13/2006) are applicable to guide this proceeding. Specifically, Section II of the Settlement Policies and Procedures, titled "Consideration of Settlements," states:

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission's consideration of the settlement... [W]hen the settlement presents issues of significant implication for other utilities, customers, or the public interest, the Commission will convene an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of such settlement shall be based upon substantial evidence in the record.

Because this case presented issues of significant implication for the utility and the public interest, a hearing has been held to consider the merits of this case, including the Settlement Agreement, and we now proceed to evaluate the record in this proceeding.

Through their personal appearances, SCE&G presented the testimonies of Andy T. Barbee, Joseph K. Todd, Rose M. Jackson, Michael D. Shinn, and Allen W. Rooks. Through their personal appearances, ORS presented the testimonies of Christina L. Seale and Michael R. Cartin. The testimonies and exhibits of the SCE&G witnesses and the ORS witnesses were stipulated into the record of the case without objection. SCE&G presented its witnesses in two panels. Witnesses Barbee and Todd were presented in the first panel, and Witnesses Jackson,

Shinn, and Rooks were presented in the second panel. The ORS witnesses were presented individually. Each of the witnesses presented summaries of their testimony and then were made available to respond to questions propounded by the Commission.

SCE&G witnesses testified in support of the Settlement Agreement and on issues related to the prudence of SCE&G's fuel purchasing practices, plant operations, and fuel inventory management. SCE&G witness Barbee discussed the operating performance of the V.C. Summer Nuclear Station. SCE&G witness Todd reviewed the operating performance of the Company's fossil/hydro units and of South Carolina Generating Company's Williams Electric Generating Station. SCE&G witness Jackson provided testimony about the natural gas and nuclear fuel purchasing processes for SCE&G generation and discussed natural gas and uranium prices as well as the near term outlook. Company witness Shinn discussed the Company's procurement and delivery activities for coal and No. 2 fuel oil for electric generation, the changes that have occurred in coal markets since the last annual fuel adjustment hearing and how these changes affected coal procurement during the review period. Mr. Shinn also discussed the procurement and delivery of limestone for the wet scrubbers at Wateree and Williams Stations. Company Witness Rooks provided actual fuel cost data for the historical review period; projected fuel costs for the period January 1, 2012, through April 30, 2013; and recommended fuel rates for the period of May 2012 through April 2013.

ORS witness Seale testified and presented the results of the ORS Audit Department's examination of the Company's books and records pertaining to the Fuel Adjustment Clause operation for the period of January 1, 2011, through December 31, 2011, and the Company's estimated calculations for the months of January 1, 2012, through April 30, 2012. Based on ORS Audit Department's examination of the Company's books and records, and the Company's

operation of the fuel cost recovery mechanism, ORS witness Seale testified that the Company's books and records accurately reflect the fuel costs incurred by the Company in accordance with previous Commission orders and with S.C. Code Ann. §58-27-865 (Supp. 2011). ORS witness Cartin testified to the ORS Electric Department's findings resulting from ORS's review of the Company's fuel expenses and power plant operations used in the generation of electricity during the period under review. Based on ORS's review of the Company's operation of its generating facilities during the review period, ORS witness Cartin testified that the Company made reasonable efforts to maximize unit availability and minimize fuel costs during the review period.

ORS Witness Cartin's testimony supported the terms of the Settlement Agreement regarding the appropriate fuel factors for SCE&G to charge for the period beginning with the first billing cycle in May 2012 and continuing through the last billing cycle of April 2013. Under the terms of the Settlement Agreement, SCE&G agrees to recover an amount equal to the actual base fuel and variable environmental costs (under)-recovered balance as of April 30, 2012, which is projected to be \$72,133,124, in the next rate period commencing with the first billing cycle for May 2012. The Settling Parties also agree that the first dollars recovered in the succeeding twelve months beginning with the first billing cycle for May 2012 shall be applied to the (under)-recovered balance so that in the next fuel proceeding for SCE&G any (under)-recovered balance will be for the period May 1, 2012, through April 30, 2013.

For the period of the first billing cycle for May 2012 through the last billing cycle for April 2013, the Settlement Agreement sets forth the appropriate fuel factors, in cents per kilowatt-hour ("cents/kWh"), for SCE&G to charge. These fuel factors are listed in the table below:

<b>Class</b>	<b>Base Fuel Cost Component (cents/kWh)</b>	<b>Variable Environmental Cost Component (cents/kWh)</b>	<b>Total Fuel Costs Factor (cents/kWh)</b>
Residential	3.541	0.093	3.634
Small General Service	3.541	0.087	3.628
Medium General Service	3.541	0.069	3.610
Large General Service	3.541	0.043	3.584
Lighting	3.541	0	3.541

After hearing the evidence and testimony of the witnesses and reviewing the Settlement Agreement, the Commission finds and concludes that SCE&G's fuel purchasing practices and policies, plant operations, fuel inventory management, and all other matters associated with S.C. Code Ann. § 58-27-865 (Supp. 2011) are reasonable and prudent, and that approval of the Settlement Agreement is consistent with the standards for fuel review proceedings conducted pursuant to S.C. Code Ann. § 58-27-865 (Supp. 2011). The Settlement Agreement allows recovery by SCE&G of fuel costs as precisely and promptly as possible and in a manner to assure public confidence and minimize abrupt changes in charges to customers. As such, it is in the public interest as a reasonable resolution of the issues in this case. We also find that the resolution of issues among the Settling Parties as set forth in the Settlement Agreement does not appear to inhibit economic development.

IT IS THEREFORE ORDERED THAT:

1. The fuel purchasing practices and policies, plant operations, fuel inventory management, and all other matters associated with S.C. Code Ann. § 58-27-865 (Supp. 2011) of SCE&G are reasonable and prudent for the period January 1, 2011, through December 31, 2011.
2. The Settlement Agreement is incorporated herein by this reference, is found to be a reasonable resolution to the issues in this case, is in the public interest and is therefore hereby

adopted and approved. The Commission also approves the tariff sheet attached to the Settlement Agreement as Exhibit A titled “Adjustment for Fuel and Variable Environmental Costs.”

3. SCE&G shall set its Base Fuel Cost Components, Variable Environmental Cost Components and Total Fuel Cost Factors consistent with the amounts set forth in the table below effective for bills rendered on and after the first billing cycle of May 2012, and continuing through the last billing cycle of April 2013.

<b>Class</b>	<b>Base Fuel Cost Components (cents/kWh)</b>	<b>Variable Environmental Cost Components (cents/kWh)</b>	<b>Total Fuel Costs Factors (cents/kWh)</b>
Residential	3.541	0.093	3.634
Small General Service	3.541	0.087	3.628
Medium General Service	3.541	0.069	3.610
Large General Service	3.541	0.043	3.584
Lighting	3.541	0	3.541

4. The Parties shall abide by all terms of the Settlement Agreement.

5. SCE&G shall file with the Commission the tariff sheet approved by this Order entitled “Adjustment for Fuel and Variable Environmental Costs” and all other retail tariff sheets within ten (10) days of receipt of this Order, and also serve copies on the Parties. The fuel rates reflected in any such tariff sheets shall be consistent with the components and factors set forth in ordering Paragraph No. 3 above.

6. SCE&G shall comply with the notice requirements set forth in S.C. Code Ann. § 58-27-865(B) (Supp. 2011).

7. SCE&G shall continue to file the monthly reports as previously required. SCEUC shall also be provided a copy of the monthly reports.

8. SCE&G shall account monthly to the Commission and ORS for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit. ORS shall monitor the cumulative recovery amount.

9. SCE&G shall submit monthly reports of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 megawatts or greater to the Commission and ORS.

10. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

\_\_\_\_\_  
John E. Howard, Chairman

ATTEST:

\_\_\_\_\_  
David A. Wright, Vice-Chairman

(SEAL)